

## EQUALIZATION AND COMPETITIVENESS

This article is intended to help New Brunswickers understand why the debate over equalization is important, and to propose a fair resolution for this Province and for all Canadians.

As a Business Council, our goal is that New Brunswick's economy and revenues will be sufficiently buoyant in future that when equalization is calculated, other provinces, and not New Brunswick, will be the beneficiaries.

But we believe that Canada's competitiveness will always be linked to having a robust equalization program that puts all Canadians in the game. In our view, that means a formula that includes all provinces, all revenues and no capping.

There are claims that there is too much equalization, that in the interests of competitiveness, Canada should take a step back. It is suggested the funds should be focused on the most productive regions.

Ontario Premier McGuinty has been speaking recently about his concerns over his province's capacity to remain competitive. The rest of Canada shares this concern. Ontario's economic strength is something from which we all benefit, and to which we all contribute.

But we can take some satisfaction in the fact that growth is being spread across the country. This has long been a goal of our national economic and fiscal policies, and it is encouraging that there has been a closing of the gap between provinces.

And while the economic circumstances of provinces will vary over the years, equalization is there to ensure that individual Canadians are not the victims of where they happen to live. The principle, as expressed in the Constitution, is to "ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation"

Equalization is not a uniquely Canadian principle, but one that is applied in most mature federations. In a modern unitary state, like Great Britain or France, citizens have access to key public services of comparable quality, regardless of geography.

In a federation, like Canada or Australia, states or provinces deliver many of those key supports. Some measure of equalization is built into national finances to ensure that all states are able to provide services to a national standard. In Australia and Germany, states are topped up to the same level. In Canada, we have merely aimed at bringing deficient provincial government revenues up to a national average, and not to the level of the most prosperous province.

However, we have fallen away from a true national average because we abandoned the ten-province standard over two decades ago, and various caps have also been applied.

On top of that, there is now a call for resource revenues to be excluded from the calculation of the national average.

We believe that equalization should be driven by a clean formula without tinkering. As long as resource revenues are available to be spent, they should be included in the calculation for equalization purposes. If and when they cease to flow, and any province's revenues fall below the national average, equalization will kick in.

And let's be clear about who pays. This is not a case of Ottawa playing Robin Hood and taking from rich provinces and giving to the poor. Equalization is paid by the federal government and financed from the contributions of all taxpayers across the country. A New Brunswicker with a taxable income of \$ 50,000 annually and an Albertan with the same income contribute equally to national equalization. And contrary to what you have been led to believe, wealthier provincial governments do not contribute. They keep all of their oil and gas revenue, no portion of it is siphoned off to other provinces.

Why is equalization key not only to our present circumstances but for the future? Canadians know we have to invest more in education, training, and wellness - things that make for a more productive citizenry. And these are services largely financed by provincial governments.

New Brunswick currently receives about 22% of its total budget in the form of equalization, about the same amount as it spends on education and training. This also means that we are able to spend the same proportion of our budget on education and training as does a wealthier province like Ontario.

We know that all provinces need to increase their investment in productivity. Is it prudent to constrain equalization and give a few provinces an even bigger head start?

A two-tiered Canada is an option which Canadians instinctively reject, and one that will not serve our national prosperity and competitiveness aims.

The New Brunswick Business Council is calling on the Government of Canada to be guided by principle, to return to the integrity of a formula-driven program that takes account of all provincial revenues and assures a base for all provinces to invest in future prosperity.

Submitted by the New Brunswick Business Council